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## ***Additional or simplified Inward Processing Arrangements (IPR)***

### Summary of the new system

*In a context of dearth of export refunds (trade with third countries) and the absence of a solution to guarantee the competitiveness of secondary processing export companies (Non Annex 1) on 18<sup>th</sup> June 2001 the European Commission finally adopted the **Inward Processing Arrangements (IPR) known as additional** (as opposed to so-called classical IPR) since it functions in an easier and more harmonized manner.*

*Contrary to classical IPR, access to this economic customs regime is authorized without restriction (**no examination of the economic conditions**) when all or part of a company's refunds' needs are not met.*

**This new system, published on 20<sup>th</sup> July 2001 in OJEC L 196/9 (EC Regulation EC n°1488/2001) is applicable from 27<sup>th</sup> July 2001 (cf. below)**

*Some quantities of certain agricultural raw materials (cereals, milk products, sugar), determined by a balance, can be placed under the additional inward processing regime according to the following rules:*

*1. Delivery of an inward processing certificate (IP certificate) by the office managing the NAI refunds following the application of a coefficient of reduction and/or the insufficiency of refunds.*

*2. This IP certificate is used to obtain customs authorization for Inward Processing. The placing of raw materials under IPR is conditional on the presentation of an Inward Processing certificate (IP certificate).*

*3. The operator carries out the actual inward processing.*

*This means importing non Community agricultural raw materials (sugar, milk powder,...) into the European Union free of duties and taxes, processing them on Community territory with a view to re-exporting them 100% in the form of finished products (biscuits, chocolates ...), outside the European Union and without refund.*

### The context

#### **The problems**

- The **decrease** in Community refunds to 415 million euros for the year 2000/01 programmed by the WTO
- The arbitrary **reductions** of the Community refunds budget (EAGGF)
- A **heavier** administrative burden and an increase in controls (certificate, guarantee ...)

#### **The solutions**

- The additional or simplified Inward Processing Arrangements (IPR) (European Council proposal in progress)

- The internal Inward Processing arrangements (between sugar manufacturers proposals and sugar processors)
- The privileged granting of refunds to small exporters / SME: less than 50,000 euros refunds per year (validated on 13.7.2000). Alliance 7 insists on an increase in the threshold for exemption of refund certificates from 50,000 to 100,000 euros.

### **The additional or simplified Inward Processing Regime (IPR)**

- ◇ This is the only alternative proposed by the Commission
- ◇ A Council Regulation on 20.11.2000 ratified use of IPR for our Non Annex 1 products, eligible for refunds, without prior examination of the economic conditions (automatic IPR). The threshold for exemption from the examination of economic conditions is usually 150,000 euros for SMEs.
- ◇ The Regulation for the implementation of IPR voted on 18<sup>th</sup> June 2001, will be implemented on 1<sup>st</sup> September 2001.

#### **Its principle**

- ◇ Delivery of a certificate for inward processing relief authorizing the purchase of raw materials at world price without customs duty, their processing into finished products and the export of these products without refund. The placement of certain raw materials under the inward processing regime is mentioned.
- ◇ Overall control of the quantities of raw materials placed under IPR on the basis of a supply balance.

### **The practical rules**

The practical rules of additional or simplified IPR are defined by the **Commission Regulation (EC) n°1488/2001 dated 19<sup>th</sup> July 2001** (enclosed) laying down **rules for the application of Council Regulation n° 3448/93** as regards the placement of certain quantities of certain basic products listed in Annex 1 of the Treaty, establishing the European Community under the inward processing arrangements without prior examination of the economic conditions.

The following is a summary of the procedure:

1. Request for an Inward Processing certificate from the Board
2. Lodging of the application for Customs authorization for Inward Processing from the Customs authorities (waiting time = 1 month)
3. Operation for placement of the raw material under inward processing arrangements
4. Treatment of the arrangements by the customs authorities in the same way as classical IP

*The implementation of additional IPR appears particularly heavy, complex and bureaucratic. Because of this it is impracticable for numerous exporting SMEs. Furthermore, this system is only a specific, provisional solution and in no way deals with the fundamental problem of refunds. In a word, this system is discouraging!*

## 1. Supply balance and application for an Inward Processing certificate

Before 21<sup>st</sup> September of each year, based on the distance between the presumed needs and resources available, the Commission establishes a **balance** of the quantities of basic agricultural products which it authorizes operators to apply for in the form of an **Inward Processing certificate (IP)**, as a quantity of raw material. The total quantities of each basic product will be published in the OJEC by 30<sup>th</sup> September of each year at the latest. **They may be revised during the year: 2<sup>nd</sup> publication before 31.01 and 3<sup>rd</sup> before 31.5.**

Only an operators who is a titular holder of a valid **refund certificate** or who was the titular holder of a certificate issued during the previous budget year or who has qualified for refunds, may **apply for an IP certificate** from the Board (2 copies).

**The basic agricultural products are: milk products (butter, milk powder), white sugar, rice, cereals (common wheat, durum wheat, rye, barley, oats, corn, sorghum).**

**A separate application must be made for each quantity of a single, available, basic product. Only one application per tranche may be made by any single operator for each basic product.** The total quantity applied for per operator and per tranche, for each basic product shall not exceed **5,000 tonnes for sugar**, milk products and rice and **20,000 tonnes for cereals.**

Member States **inform** the European Commission of the use of certificates and it is the European Commission which decides to grant certificates, possibly accompanied by a coefficient of reduction for each basic product.

### **Period of issue of IP certificates**

The year is made up of **three tranches of issues of IP certificate:**

1<sup>st</sup> tranche: Before 30.9 until 14.10. Between 21.10 and 26.10 possible communication of a reduction coefficient then issue of the certificate.

2<sup>nd</sup> tranche: During the 10 working days which follow the 2<sup>nd</sup> publication of the quantities of basic products (before 31.01). Possible communication of a reduction coefficient in the 5 days following the end of the period, then issue.

3<sup>rd</sup> tranche: During the 10 working days which follow the 3<sup>rd</sup> publication of the quantities of basic products (before 31.05). Possible communication of a reduction coefficient in the 5 days following the end of the period, then issue.

For the purposes of the first tranche of certificate issues, the quantities of the basic products shall be covered to the extent of 60%.

For the purposes of the second tranche of certificate issues, the quantities of basic products published **before 31.1** shall be covered to the extent of 60%.

For the purposes of the third tranche of certificate issues, the quantities of basic products published **before 31.5** are covered to the extent of 100%.

Furthermore, throughout the budget year, taking into account the quantities already granted with certificates and the unused quantities, the Commission may, as a matter of urgency, determine the remaining quantity available for each basic product identified by its CN code. This will be published in the OJEC.

**Extracts** from this documents may be obtained from the ONIC at the request of the titular holder.

### **Reduction coefficient**

If a reduction coefficient has been set, IP certificates issued for each application must include the quantity of the basic product requested multiplied by the reduction coefficient in question.

### **Period of validity of IP certificates**

The validity of the IP certificate is equal to the current month + two months counting from the day on which the application is lodged.

The day on which application for the certificate was lodged = up to 1 p.m. on the day on which the Board receives the application.

### **Transfer of IP certificates**

The rights deriving from inward processing certificates are transferable by their titular holder during the period of their validity. Such transfer may be made in favour of a single transferee, only for each certificate or extract therefrom.

## 2. Application for IP authorization without prior examination of economic conditions

On presentation, during the period of validity, of the IP certificate, the operator may lodge with the French customs authorities, **an application for inward processing authorisation** (except for successive IPR and for the issue of extracts of IP certificates, these may be used in several customs offices) for a quantity less than or equal to the quantity of basic product specified in the certificate. The economic conditions shall then be regarded as having been met.

The granting of the regime is usually submitted to *a priori* economic conditions for sensitive products. However, exemption is granted under the following conditions:

- If the ceiling of the global value of imported goods per applicant and per civil year and per CN code <150,000 euros
- Contract processing
- **For the manufacture of non Annex 1 products qualifying for refunds. This is the case for your company.**

### **Period for the issue of authorisation**

The applicant is informed of the decision to grant authorisation or the motives for rejecting the application within a period of 30 days after the application for authorisation.

### **Period of validity of the authorisation**

The length of validity of the authorisation cannot exceed 6 months for agricultural products and 4 months for milk products and milk.

### **Auditing period**

In general, the authorisation specifies the auditing period. For agricultural products which are eligible, the auditing period is 6 months and 4 months for milk and milk products.

### *3. Placement of raw materials under inward processing arrangements*

#### **The actual IPR exercise intervenes**

IPR therefore makes it possible to use the following on Community customs territory:

- ◇ non Community agricultural raw materials (cereals – corn, common wheat, rice ...-, sugar, butter, milk powder) intended to be re-exported outside Community customs territory in the form of finished products (biscuits, chocolates, confectioneries, dietary foods, rusks ...) without these goods being submitted to import duties and taxes and, where applicable, to external trade control measures (system of suspension)

with a view to

- ◇ their processing

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*Successive IPR cases*

**IPR operations for intermediate products – (Art. 14)**

**The production of non Annex I goods under the Inward Processing Regime can take place in two steps, by a different company at each step.**

for example, you do not wish to import corn or common wheat (basic product) but glucose syrup (intermediate product))

Two authorizations of inward processing can be granted successively, one for the placement of a basic product, then the other on the placement of an intermediate product corresponding to the basic product. The economic conditions are then considered to be met for each of these two authorizations, on condition that each of these applications **is presented on the basis of the same IP certificate.**

The second application for authorization intervenes when the application is made for an IP certificate. The operator (called A) indicates on the IP certificate the name of the applicant for the second authorization (called B) and the name of the new product for which IPR is requested.

Operator A notifies the customs authority of the quantity of the new product. The Board calculates the number of calendar days corresponding to the outstanding period of validity, with reference to the date on which the application for an IP certificate was made.

Operator A must ask for the transfer of the certificate in favour of operator B on the same day that he makes the notification.

At the request of operator B, the Board transfers the IP certificate to him, after having entered the new validity date (date of the application + remaining period of validity).

On presentation during its period of validity, operator B may make an application for authorization to use IP for a quantity of the basic product less than or equal to the quantity referred to in the certificate.

Operator B then carries out the actual inward processing relief.